

Labor Burden & Profits – Part IV:

Using Burdened Costs & Variance Reports to Improve Your Operations

Using burdened cost information in tandem with internal management reports can help you bring job costs under immediate control and will, additionally, provide you with ongoing insights into ways to improve your company's overall performance and productivity!

From Parts I, II, and III of this Series:

In our last 3 articles, we've covered topics including:

- Frequently used terms and “big-picture calculations” related to labor burden and employee costs.
- How labor burden add-on costs can make a tremendous difference in an employee's actual cost per production hour. (Our example employee, Pat, actually cost us 82% more than his/her gross hourly wage.)
- A process to determine what to charge per hour for employees on both a stand-alone, and “weighted-cost” basis for individual projects.
- Whether, and when, overtime is a financially sound management decision.

More Accurately Estimate Job Costs

When you know how much each direct labor employee actually costs per production hour, **you can use the information to more accurately estimate job costs.**

To make your estimating easier, if you have more than 3 or 4 employees, it's a good idea to total, and then average, employee production costs by job level, job stage, and/or by department. For example, you could:



- Group **by job level**: e.g., Interns and apprentices into Category 1, “standard” laborers into Category 2, “master-level” employees Category 3, and supervisors into Category 4.
- Group **by job stage**: If your employee costs more closely follow the stage of work being performed (e.g., Stage 1-design work, Stage 2-prep work, Stage 3-primary job completion, Stage 4-follow up work, etc.) then establish your costs by job-stage.
- Group **by department**: If your company delivers services based on departments, you could group and average your employee costs by Department A, Department B, etc.

By averaging burdened employee costs in a manner that parallels the way you estimate the various elements of time required to complete a job, you can use those averages to achieve more accurate estimates for job costs and pricing.

[Click here to review an easy-to-use Labor Burden and Employee Profitability Calculator](#)

Assign Fully Burdened Costs to Jobs as Work is Performed

The problem faced by most companies who perform job costing is that their **accounting system has not been set up to automatically assign burden costs to jobs as a part of the payroll process**. Although the specifics of how to get your accounting system to assign these additional burden costs to your jobs is outside the scope of this article, this can be done.

Q. Why is this step important?

A. If you are reviewing job cost reports, and seeing only the gross compensation and payroll tax costs assigned to that job, your job costs are seriously understated (i.e., you are looking at misleading information).

It's actually possible to see a profit on each job (the appearance is good), but when you see the total for all jobs including your burden costs, you'll find that your profit margin is seriously undermined (the reality is not good) . A **better idea** is to be able to see your true job costs, including burden, as you go, so that you can proactively take the steps needed to make each job (now including burdened costs) truly profitable.

An Immediate Impact on Your Bottom Line



You can make an immediate impact on your bottom line by heading off labor over-runs before they get out of hand: How? It's simple:

- **Regularly review and compare actual burdened job costs to estimated burdened job costs.**
- Then **use** the information from these “variance reports” to **take immediate corrective action if needed.**

Companies who keep a close watch on potential cost and labor over-runs review these reports on a weekly, or bi-weekly basis. Many company owners share these numbers with job supervisors and include labor variance reviews as a part of weekly job oversight and control meetings.

Please note that obtaining reliable “Actual vs. Estimate” (variance) reports is directly related to your ability to:

1. Create and enter accurate initial estimates for all job costs (including burdened labor) into your accounting/reporting system.
2. Track and enter estimated Change Order costs into your accounting system as they are generated.
3. Obtain reasonably accurate time-tracking information, by job stage, from employees.
4. Assign job costs (including employees' compensation and fully burdened costs) to jobs.

Remember that labor costs will be accurate only through the most recent payroll posting, and **most payroll lags a week behind actual work performed, so keep those timing differences in mind when reviewing reports.** To compensate for costing time lags, some companies also like to monitor daily or weekly time reports (i.e., time without costs, or with computed anticipated costs).

Use variance reports to help you alternate your attention from the job – to the numbers – to the job – to the numbers. This “dual view” approach can help you keep your job costs (including labor) on target. If you haven't been doing this previously, it's highly likely that you'll see some immediate favorable bottom-line changes.

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Are There Any Other Ways to Use Variance Reports?

Yes indeed! Variance reports can be used **after your job is completed** in several ways. Review the results for the entirety of the completed job. If you've established your reporting to Estimate vs. Actual for various job stages, and segregated burdened labor costs within each major job stage, those reports can offer a wealth of information.



1. For favorable estimate vs. actual results, explore how that was achieved. You'll want to learn how to repeat and enhance those favorable results.
2. For unfavorable estimate vs. actual results, take an honest look at what happened, and ask the tough questions without blame or recrimination. Getting a clear idea of what went wrong should become the springboard for questions about how to make improvements in your operations. E.g.:
 - a. Was the estimate wrong?
(Q. = How do we provide better information to the Estimator?)
 - b. Did unforeseen circumstances crop up?
(Q. Is there a better way to react to, or plan for, “unforeseen” circumstances?)
 - c. Did the workers not have accurate information or direction?
(Q. = Is there a better way to provide that type of information or direction on our next job?)
 - d. Were the wrong workers assigned to the task?
(Q. = Which workers should have been assigned? How do we make that happen next time?)

- e. Did the customer “get in the middle” and/or Change Orders not generated”?
(Q. = Is there a way to keep clients from interacting with field staff, and/or to ensure that Change Orders are created as needed?)
- f. Were costs assigned to the incorrect job stage by the bookkeeper?
(Q. = Are there ways to help the bookkeeper know which job stages are to be assigned to which Bills?).

You'll find that as establish the systems that allow you to see your burdened labor costs, and as you take various steps to control those costs, you will also begin find ways to improve your entire operation.

[Click here to review an easy-to-use Labor Burden and Employee Profitability Calculator](#)

Next,...

More ways to use Labor Burden and employee cost information to enhance your bottom line,...

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She is the developer of the [eCPA \(employee Cost & Pricing Analyzer\) Labor Burden Calculator](#), an Excel-based program that automatically performs comprehensive labor burden and pricing calculations for up to 200 employees and 25 departments. Contact Gilson via [email](#) or call 734-544-7620 (9-5 Eastern).